

Fiscal Note

Fiscal Services Division



HF 2372 – Military Pay Income Tax Title 32 Exemption (LSB 6156HV)
Analyst: Jeff Robinson (Phone: (515) 281-4614) (jeff.robinson@legis.iowa.gov)
Fiscal Note Version – New

Description

House File 2372 expands the Iowa income tax exemption for active duty military pay to include active duty pay received by National Guard and Armed Service Reserve through Title 32 of the U.S. Code. The change is retroactive to tax year 2014.

Background

As of tax year 2011 (see HF 652, Active Duty Military Income Tax Exemption Act of 2011), Iowa law exempts active duty pay, as that term is defined by the federal government, from State income tax.

Assumptions

- The new income tax exemption in this Bill will apply to 1,972 taxpayers and the annual exempt income involved is estimated to be \$105.4 million for tax year 2014.
- Income exempted under this Bill will increase 2.0% per year.
- The exempted income is assumed to be the only income source for the taxpayers.
- Taxable income will equal 76.0% of gross income.
- The average income tax rate for this income is 5.35%.
- The Bill is retroactive to January 1, 2014, but will not be enacted for several months after that date. The income tax reduction associated with the January 1, 2014 through June 30, 2014 period will impact General Fund receipts in FY 2015.
- Actions that reduce taxable income also reduce any local option income surtax for schools that a taxpayer may be subject to. The statewide average surtax is 3.5% of State income tax liability.

Fiscal Impact

The expansion of the active duty pay income tax exclusion is estimated to reduce net General Fund revenue by the following amounts.

Active Duty Pay Expansion		
In millions		
	General Fund Revenue Reduction	
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FY 2014	\$	0.0
FY 2015		-6.1
FY 2016		-4.4
FY 2017		-4.5
FY 2018		-4.6

The revenue reduction will be similar in fiscal years after FY 2018.

Since the expanded income tax exclusion will reduce Iowa taxable income, it will also reduce the revenue received by local school districts through the local option income surtax for schools by \$200,000 per year, beginning in FY 2015.

Sources

Iowa National Guard
Military pay schedules

/s/ Holly M. Lyons

March 11, 2014

The fiscal note for this bill was prepared pursuant to [Joint Rule 17](#) and the Iowa Code. Data used in developing this fiscal note is available from the Fiscal Services Division of the Legislative Services Agency upon request.
